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## United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP  
WASHINGTON, DC 20510-6350

March 1, 2002

BY FACSIMILE  
ORIGINAL BY U.S. MAIL

The Honorable Charles O. Rossotti  
Commissioner  
Internal Revenue Service  
1111 Constitution Avenue, N.W.  
Washington, DC 20224

Mr. Joseph Kehoe  
Commissioner  
Small Business/Self-Employed Division  
Internal Revenue Service  
1111 Constitution Avenue, N.W.  
Washington, DC 20224

Dear Commissioners Rossotti and Kehoe:

At my request, the General Accounting Office (GAO) has completed a review of the Internal Revenue Service's (IRS) tax abatements affecting small business taxpayers. I asked for this review because I believe these tax abatements can provide important information that the IRS can use to train their employees better and help small businesses avoid making the mistakes that lead to the abatements in the first place.

As noted in the attached copy of the GAO's letter report, "Better Data on Small Business Tax Abatements May Enable IRS to Reduce Taxpayer Burden and IRS Costs," (GAO-02-336), the IRS made more than 1.7 million small business tax abatements during a 2½ year period ending in July 2001, totaling \$18 billion in taxes. These abatements, which reduce the tax assessment in a taxpayer's account, resulted from errors made by the taxpayer and/or the IRS. The amount of these abatements, however, does not include the enormous cost and burden that small business taxpayers must bear to correct these errors nor do they include the administrative costs to your agency.

The GAO also found that the IRS already collects some data on small business tax abatements, although significant improvements in this data remain to be implemented. In particular, there is little readily available data on who made the error and how and why the error occurred. More important, the GAO discovered that the IRS' new Small Business/Self-Employed (SB/SE) Division was not utilizing the data that currently exists.

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Accordingly, the GAO report lays out several steps to improve the data on small business tax abatements. These steps range from simply starting to use the existing tax-abatement data to collecting new data aimed at identifying the root cause of an abatement. While I understand that each step has its associated costs and benefits, I believe they hold the potential for improved taxpayer service and reduced compliance costs.

If the IRS can identify by analyzing tax abatements specific issues or guidance that repeatedly results in taxpayer or IRS errors, significant improvements can be made. Tax forms and instructions in particular areas could be improved; new educational outreach efforts could be undertaken to help taxpayers avoid mistakes; and IRS employees could be trained to handle the specific issue better.

In light of the range of these steps, I urge you to develop a framework for evaluating the costs and benefits of the GAO's recommendations and implement those that are cost effective. From my perspective, Steps 1 and 2 should be implemented as quickly as possible:

Step 1: Start using and improving the existing electronic data on the volume of tax abatements.

Step 2: Expand the collection of existing electronic data, when abating taxes, on what tax issues were related to the abatements.

These steps will provide short-term benefits for small business taxpayers while the other two steps are considered for longer-term advantages. I would appreciate your providing me with an implementation plan by April 1, 2002, that includes specific milestones, at least with respect to applying Steps 1 and 2.

Thank you in advance for addressing this important issue. If you have any questions or would like to discuss this matter in greater detail, please do not hesitate to contact me or have your staff contact Mark Warren, my Tax Counsel on the Committee on Small Business and Entrepreneurship, at 202/224- .

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Bond", written in a cursive style.

Christopher S. Bond  
Ranking Member

Attachment